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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 NSC-05 STR-04 PA-01 PRS-01 /110 W
----------128744 060049Z /64
R 051733Z AUG 77
FM AMEMBASSY MADRID
TO SECSTATE WASHDC 1297
INFO AMEMBASSY PARIS

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E.O. 11652: N/A
TAGS: ECON, PINT, EFIN, SP
SUBJECT: VICE PRESIDENT ELABORATES ON ECONOMIC PROGRAM

REF: MADRID 5632, 5741, AND 5745

1. SUMMARY: IN AUG 4 TELEVISION APPEARANCE, VICE PRESIDENT FOR ECONOMIC AFFAIRS FUENTES QUINTANA REVIEWED GOVERNMENT'S PROGRAM TO DEAL WITH PRESSING ECONOMIC PROBLEMS. EXPLANATION OF GOVERNMENT PROGRAM DESIGNED TO MITIGATE CONCERNS ARTICULATED BY VARIOUS SEGMENTS OF SPANISH SOCIETY DURING PAST FEW WEEKS. NEW INFORMATION LIMITED TO REVELATION THAT SPAIN HAS RECOVERED $1,172 MILLION IN FOREIGN EXCHANGE RESERVES SINCE JULY 12 DEVALUATION AND THAT URGENT TAX REFORMS PACKAGE IS NOW BEFORE TH CORTES FOR PARLIAMENTARY CONSIDERATION. END SUMMARY.

2. VICE PRESIDENT FOR ECONOMIC AFFAIRS FUENTES QUINTANA APPEARED ON TELEVISION AUGUST 4 TO EXPLAIN SCOPE,
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INTENTION, AND SPECIFIC MEASURES OF GOVERNMENT'S ECONOMIC PROGRAM. IN AN APPARENT EFFORT TO MITIGATE CONCERNS OF BUSINESSMEN, ORGANIZED LABOR, AND SAVERS THAT HAVE DEVELOPED AND BEEN ARTICULATED DURING PAST TWO WEEKS, FUENTES QUINTANA EXUDED CONFIDENCE IN EXPLAINING ONCE AGAIN ALL ASPECTS OF THE PROGRAM. CHARACTERIZING THE PROGRAM AS AN URGENTBUT GRADUAL PLAN TO PERMIT RECOVERY

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FROM SEVERE ECONOMIC PROBLEMS OF EXTERNAL IMBALANCE, INFLATION, AND UNEMPLOYMENT, BE EMPHASIZED NEED TO FOSTER THE MARKET SYSTEM AND TO ASSURE THAT ALL SPANIARDS PARTICIPATE IN ACCORDANCE WITH ABILITY TO BEAR GREATER BURDEN. HE DEALT IN TURN WITH DEVALUATION, FISCAL REFORM, WAGE INCREASE MODERATION, SUPPORT FOR PRIVATE ENTERPRISE, THE FINANCIAL SYSTEM, AND UNEMPLOYMENT. WHILE A LUCID, JARGON FREE, AND WELL ORGANIZED EXPOSITION OF ECONOMIC PROBLEMS AND THE GOVERNMENT'S PROGRAM TO DEAL WITH THEM, FUENTES QUINTANA'S REMARKS REVEALED NO NEW MEASURES OR ADDITIONAL INFORMATION EXCEPT THAT SPAIN HAS RECOVERED $1,172 MILLION IN FOREIGN EXCHANGE RESERVES SINCE JULY 12 DEVALUATION (GOS CLAIMS IT LOST $1 BILLION DEFENDING OLD PESETA PARITY IN SIX WEEKS PRECEDING JULY 12) AND THAT GOVERNMENT'S DRAFT LAW ON URGENT TAX REFORM MEASURES HAS BEEN PRESENTED TO PARLIAMENT.

3. FUENTES QUINTANA SAID THAT DEVALUATION WAS CORNERSTONE OF GOS EFFORTS TO CORRECT EXTERNAL IMBALANCE. MAINTAINING UNREALISTICALLY HIGH VALUE OF PESETA, HE CLAIMED, HAD HANDICAPPED SPANISH EXPORTERS, ENCOURAGED IMPORTS AT THE EXPENSE OF DOMESTIC PRODUCTION, AND MADE INCREASING SPECULATION INEVITABLE. SINCE JULY 12 DEVALUATION, PESETA QUOTATION HAS IMPROVED ABOUT 3 POINTS AND HAS ALLOWED BANK OF SPAIN TO RECOUP
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FOREIGN EXCHANGE RESERVES.
CONTROLLED PRICES OF IMPORTED COMMODITIES WERE INCREASED TO CONSOLIDATE BENEFICIAL CORRECTIVE EFFECT OF DEVALUATION.

4. COMBATTING KEY PROBLEM OF INFLATION, FUENTES QUINTANA MAINTAINED, REQUIRES LIMITING INCOME GROWTH WHICH IS EXERTING UPWARD PRESSURE ON PRICES BY ADDING BOTH TO COSTS AND TO CONSUMER DEMAND. INFLATIONARY PRESSURES MUST BE ALLEVIATED BY TAX REFORM, WAGE RESTRAINT, AND MORE RESTRICTIVE MONETARY POLICY. TAX REFORM IS NECESSARY TO ASSURE HIGHER INCOME GROUPS WILL BEAR EQUITABLE SHARE OF INCOME GROWTH RESTRAINT. PRESENT SPANISH TAXES ARE JUSTIFIABLY CRITICIZED BECAUSE THEY ARE EVADED, UNJUST, AND INCOMPREHENSIBLE. AIM OF GOVERNMENT'S PLAN OF URGENT FISCAL REFORM SUBMITTED TO PARLIAMENT IS TO BRING SPANISH SYSTEM MORE IN LINE WITH THAT OF OTHER DEMOCRATIC, MARKET ECONOMY SOCIETIES. TO THIS END, THREE EXTRAORDINARY TAXES TO BE APPLIED THIS YEAR ARE ON WEALTH IN EXCESS OF 5 MILLION PESETAS ($60,000), ON SALARY INCOME OVER 2 MILLION PESETAS ($24,000) PER YEAR, AND ON LUXUIRES. DESIGNATION OF TAX FRAUD AS A CRIME, INVESTIGATION OF BANK ACCOUNTS, AND IMPROVED

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TAX COLLECTION ARE ALL ESSENTIAL ELEMENTS OF URGENT
FISCAL REFORM PACKAGE. IN ADDITION TO TAX REFORM,
GROWTH IN SALARY INCOMES MUST BE MODERATED TO LIMIT
INFLATIONARY PRESSURE OF GROWTH IN CONSUMER DEMAND.
GOVERNMENT WILL NEGOTIATE MEANS TO ACHIEVE MODERATION
WITH UNIONS AND BUSINESSMEN. TO COMPLIMENT TAX MEASURES
AND WAGE RESTRAINT, GROWTH IN MONEY SUPPLY WILL BE
REDUCED MODERATELY AND GRADUALLY TO AVOID FINANCIAL
STRAIN.

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5. THE GOVERNMENT HAS ADOPTED FREE ENTERPRISE OPERAT-
ING THROUGH THE MARKET SYSTEM AS THE MODEL FOR ITS
PROGRAM. EVERY EFFORT WILL BE MADE TO REMOVE PATERNALI-
STIC RESTRICTIONS, PROTECTION, AND SUBSIDIES WHICH
ONLY SERVE TO REDUCE INEFFICIENCY AND LOWER PRODUCTIVITY.
SUCH COMPETITION MUST BE EXTENDED TO THE BANKING SYSTEM
TO ENCOURAGE BETTER UTILIZATION OF SAVINGS BY ELIMINATING
PRIVILEDGE FINANCING CIRCUITS.

6. TO ALLEVIATE UNEMPLOYMENT, WHICH FUENTES QUINTANA
TERMED UNDOUBTEDLY THE MOST SERIOUS PROBLEM FROM SOCIAL
AND HUMAN POINT OF VIEW, GOVERNMENT WILL PROCEED WITH
SIGNIFICANT PUBLIC EXPENDITURES, OFFSETTING INFLATIONARY
IMPACT BY INCREASED TAXATION AND PUBLIC BORROWING.

7. FINALLY, IN ADDITION TO URGENT MEASURES INCLUDED
IN ECONOMIC PROGRAM, GOVERNMENT IS DEVELOPING MEANS

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TO DEAL WITH OTHER DIFFICULT PROBLEMS SUCH AS LAND SPECULATION, A CONSOLIDATED PUBLIC SECTOR BUDGET, AND SOCIAL SECURITY REFORM.
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8. COMMENT: FUENTES QUINTANA'S TELEVISION APPEARANCE WAS THE FIRST IN A SERIES PLANNED BY CABINET MEMBERS TO GAIN PUBLIC UNDERSTANDING AND SUPPORT OF THE GOVERNMENT'S ECONOMIC PROGRAM. THERE HAS ALREADY BEEN SOME CRITICISM THAT FUENTES QUINTANA DID NOTHING MORE THAN RETRACE THE ALREADY FAMILIAR PROGRAM OUTLINE WITHOUT SPELLING OUT ADDITIONAL DETAILS OF SPECIFIC MEASURES. BE THAT AS IT MAY, IN THE NEW DEMOCRATIC CONTEXT OF SPANISH SOCIETY PUBLIC UNDERSTANDING IS IMPORTANT; AND AS A TEACHER FUENTES KNOWS THE VALUE OF LUCID REPETITION.STABLER

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